

## Message Text

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ACTION EUR-12

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INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06 SP-02  
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FM AMEMBASSY OTTAWA  
TO SECSTATE WASHDC PRIORITY 1991

UNCLAS OTTAWA 5032

E.O. 11652: N/A  
TAGS: EFIN, CA  
SUBJ: BANK OF CANADA LOWERS BANK RATE

REF: OTTAWA 4628

1. SUMMARY: BANK OF CANADA REDUCED BANK RATE TO 8.5 PERCENT FROM 9 PERCENT EFFECTIVE DECEMBER 22. BANK GOVERNOR STRESSED THAT THIS SECOND RATE CUT IN ONE MONTH DOES NOT REPRESENT CHANGE IN BASIC MONETARY POLICY. BANK WILL CONTINUE MODERATE RATE OF MONETARY EXPANSION IN ORDER TO ACHIEVE DESIRABLE GROWTH OF AGGREGATE DEMAND, OUTPUT AND EMPLOYMENT AT DECLINING RATES OF INFLATION. END SUMMARY

2. GERALD BOUEY, GOVERNOR OF THE BANK OF CANADA, MADE FOLLOWING COMMENTS IN ANNOUNCEMENT OF THE BANK RATE REDUCTION:

-- THE BANK RATE HAS BEEN REDUCED "IN PURSUIT OF THE BANK'S CONTINUING OBJECTIVE OF KEEPING THE GROWTH OF THE MONEY SUPPLY WITHIN MODERATE LIMITS," CURRENTLY A RANGE OF 8 TO 12 PERCENT A YEAR.

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-- "THE RECENT GROWTH RATE OF THE MONEY SUPPLY HAS FALLEN SHORT OF THE 8 PERCENT MINIMUM TARGET AND SOMEWHAT LOWER LEVELS OF SHORT-TERM INTEREST RATES WILL HELP TO BRING IT BACK UP WITHIN THE DESIRED RANGE. IT WILL, OF COURSE, TAKE TIME FOR THE CHANGE IN SHORT-TERM INTEREST RATES TO HAVE ITS FULL EFFECT

ON THE TREND OF THE MONETARY SUPPLY."

-- "INDICATORS OF THE TREND OF EMPLOYMENT AND OUTPUT  
SUPPORT THE JUDGEMENT THAT A BANK RATE REDUCTION WILL  
BE CONSTRUCTIVE AT THIS TIME."

-- THIS SECOND REDUCTION IN THE BANK RATE IN A MONTH  
DOES NOT MEAN THAT THE BANK OF CANADA IS CHANGING THE  
BASIC ORIENTATION OF MONETARY POLICY. IT CONTINUES  
TO BE THE VIEW OF THE BANK THAT THE FIRM PURSUIT  
OF A MODERATE RATE OF MONETARY EXPANSION IS THE WAY  
THAT IT CAN BEST HELP THE CANADIAN ECONOMY TO ACHIEVE  
DESIRABLE GROWTH OF AGGREGATE DEMAND, OUTPUT AND  
EMPLOYMENT AT DECLINING RATES OF INFLATION."

-- WHILE THE BANK IS ANXIOUS TO AVOID TOO LOW A RATE  
OF MONETARY EXPANSION "IT WILL BE EQUALLY VIGILANT"  
IN SEEKING TO AVOID INCREASES THAT ARE TOO HIGH.  
IN PARTICULAR THE BANK OF CANADA HAS NO INTENTION  
OF PERMITTING MONETARY EXPANSION TO OCCUR ON A  
SCALE THAT WOULD ACCOMMODATE A FUTURE OUTBREAK OF  
RAPID INCREASES IN COSTS AND PRICES.

3. EMBASSY TRANSMITTING FULL TEXT OF BOUEY'S  
REMARKS BY AIRGRAM.  
ENDERS

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